

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L LIMA 6583

LIMDIS

E.O. 11652: GDS

TAGS: EIND, EMIN, PE

SUBJECT: CUAJONE PROJECT - STATUS REPORT

REF: LIMA 6070

1. FRANK WISE OF ASARCO TOLD EMBASSY OFFICERS AUGUST 8 THAT THE MOST SERIOUS PROBLEM REMAINING TO BE SOLVED BEFORE SIGNING OF CUAJONE AGREEMENT CONCERNS FOREIGN EXCHANGE RATE TO BE USED BY JAPANESE IN CALCULATING THEIR PAYMENTS IN YEN. WISE SAID THAT SPCC AND JAPANESE ARE NOW DISCUSSING DIFFERENCE OF \$3 TO \$5 PER METRIC TON AND THAT HE WAS HOPEFUL THAT FINAL RESOLUTION OF THIS PROBLEM WILL BE FORTHCOMING IN THE NEXT FEW DAYS. EUROPEAN SALES CONTRACTS ARE ALREADY SETTLED SO THAT IF THE JAPANESE COME THROUGH SOON, SIGNING COULD TAKE PLACE IN GENEVA WITHIN THE NEXT TEN DAYS.

2. ASIDE FROM THE SALES CONTRACTS, WISE ALSO MENTIONED A PORTENTIAL SOURCE OF CONTENTION BETWEEN SPCC AND MINEROPERU IN REGARD TO SALE OF THE FOUR U.S. PARTNERS' 70,000 METRIC TONS OF COPPER. RECENTLY, AT SPECIFIC REQUEST OF MINEROPERU, THE FOUR U.S. PARTNERS AGREED TO SELL THEIR SHARE OF COPPER IN EUROPE RATHER THAN TO THE U.S. BECAUSE AT THAT TIME EUROPEAN COPPER PRICES WERE HIGHER THAN U.S. PRICES. WITH THE
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LIFTING OF U.S. PRICE CONTROLS ON COPPER, HOWEVER, U.S. PRICES

ARE NOW HIGHER THAN EUROPEAN, AND PERUVIANS WANT TO SWITCH THE CONTRACTS BACK TO SALES WITHIN THE U.S. THIS IS NOW A PRACTICAL IMPOSSIBILITY FOR THE SPCC PARTNERS OWING TO THE FACT THAT THEY HAVE NOW CONTRACTED WITH CHILE TO SUPPLY THEIR U.S. REFINERIES. WISE HAS EXPLAINED THAT UNDER NORMAL MARKET CONDITIONS, DIFFERENCES BETWEEN U.S. AND LME PRICE WILL EVEN OUT IN LONG RUN, BUT PERUVIANS DO NOT UNDERSTAND THIS, AND HE FEARS THAT MINEROPERU MAY CREATE SOME DIFFICULTIES ON THIS POINT. (ACTUAL DIFFERENCE IN PRICE, ON TODAY'S MARKETS IS ABOUT 3 CENTS A POUND.)

3. IN SEPARATE CONVERSATION, VICE MINISTER OF ENERGY AND MINES ANTONIO TORD CONFIRMED TO EMBASSY OFFICER THAT ONLY "A SMALL DIFFERENCE WITH JAPANESE" REMAINS BEFORE SIGNING OF CUAJONE FINANCING PACKAGE. TORD HOPEFUL THAT CUAJONE PACKAGE WILL BE WRAPPED UP BEFORE THE END OF SEPTEMBER.

4. COMMENT: GIVEN THE HISTORY OF THIS PROJECT'S NEGOTIATIONS, EMBASSY IS NOT OVERLY SANGUINE THAT FINAL SIGNING WILL OCCUR IN NEAR FUTURE. HOWEVER, IT APPEARS THAT AT LEAST IN REGARD TO SALES CONTRACTS, THE SCOPE OF THE REMAINING PROBLEMS IS BEING NARROWED AND THAT IT IS JUST POSSIBLE THAT EVERYTHING WILL BE WRAPPED UP. VICE MINISTER OF MINES EMPHASIZED THAT SIGNING SOON IS CLEAR NECESSITY FOR PERU IN ORDER TO KEEP CUAJONE ON TRACK, AND PRESUMABLY GOP AT SOME POINT WILL BRING PRESSURE TO BEAR ON MINEROPERU NEGOTIATORS SHOULD TOO MUCH MORE TIME BE LOST ON THE NEGOTIATIONS.

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